Pension Funding Senate Ways & Means Committee

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Pension Cost?

- The cost of the actual benefits paid less actual investment income
- Funding methods allocate this projected cost over specific time periods
- Current contribution rates are largely based on assumed growth of projected benefits and assets

Strategies for Managing Pension Costs

- Funding policy (Legislature)
- Plan design (Legislature)
- Asset allocation (Investment board)
- Actuarial assumptions and methods (Pension Funding Council and Legislature)

Current Proposals

Funding policy

- Fund future gain-sharing liability only after it occurs (Governor Locke's proposal)
- Phase-in rate increases (SCPP and Governor's proposals)
- Suspend Plan 1 unfunded liability payments (Governor's proposal)

Plan design

 Repeal gain-sharing and replace with definite benefits (SCPP proposal)

Current Proposals (cont'd)

- Actuarial assumptions and methods
 - Switch from the Aggregate to the Projected Unit
 Credit (PUC) funding method (Governor's proposal)
 - Short-term savings generated from the switch, then long-term cost
 - PUC requires fewer assets than Aggregate at this point in time
- The switch impacts the timing of plan cost, but does not change the ultimate cost
- Simply put, "pay now or pay more later"

Other State Retirement Systems

- 2004 Wilshire report on State Retirement Systems
 - 11% fund with Aggregate (10% in 2002)
 - 13% fund with PUC (15% in 2002)
 - 72% fund with Entry Age Normal (70% in 2002)
 - -4% fund with Other methods (5% in 2002)

Recent Strategies

2003 session

- Suspend payments on the Plan 1 unfunded liability during 2003-05; amortization date unchanged
- New asset smoothing method; applied retroactively to include 2001 investment losses
- Both approaches have resulted in a deferral of future rate increases

Current Proposals

- Proposals that create an additional layer of longterm deferral:
 - Continued suspension of Plan 1 unfunded liability payments for 2005-07
 - Switch to PUC funding method
 - Deferred funding for future gain-sharing
- Rate phase-in schedules pay for the cost of the deferral in the second biennium (short-term deferral)

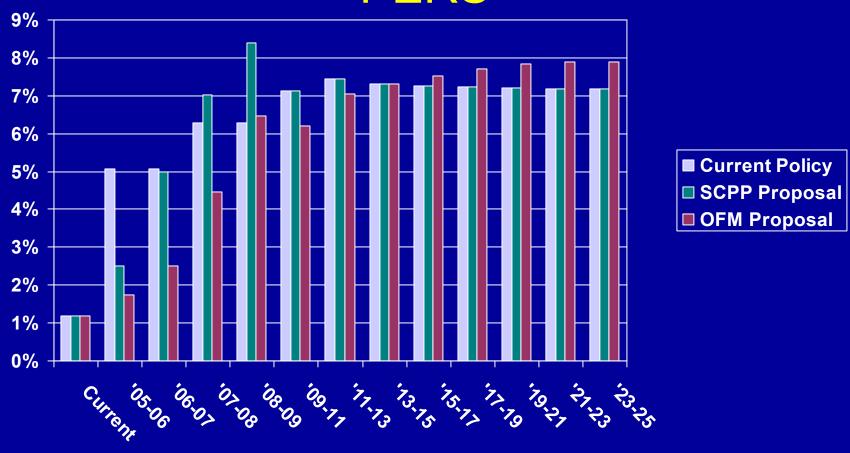
Future Investment Return?

- Current long-term assumption is 8%
- Increased from 7.5% in 2001
- 7.75% was recommended to the Pension Funding Council
- Long-term investment losses, relative to the 8% assumption, will add to the existing deferral of rate increases

Plan Sponsor Considerations

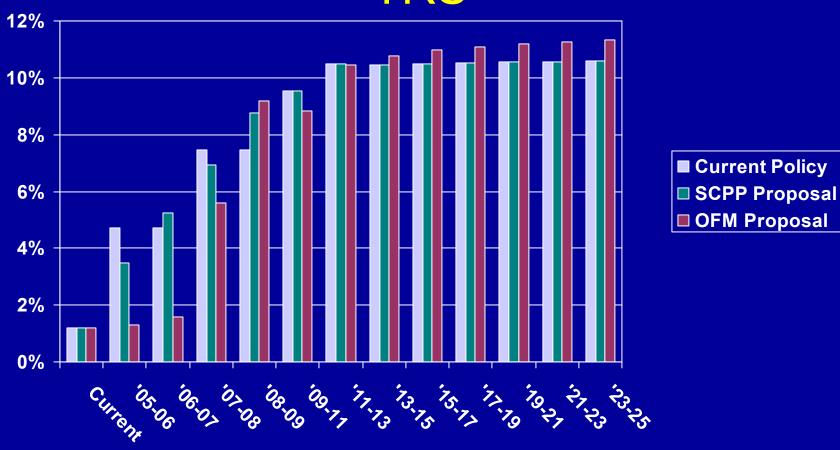
- Funding future rate increases and associated budget impact
- Impact on Plan 2 members (cost sharing)
- Security of the underlying benefit promise
- Intergenerational equity issues in Plan 2/3
 - Which generation of employees and taxpayers will pay for the cost (and assume risk) of pensions earned by the current generation?
- Fiscal impact of proposed benefit enhancements?
- Aging population

Projected Employer Rates PERS



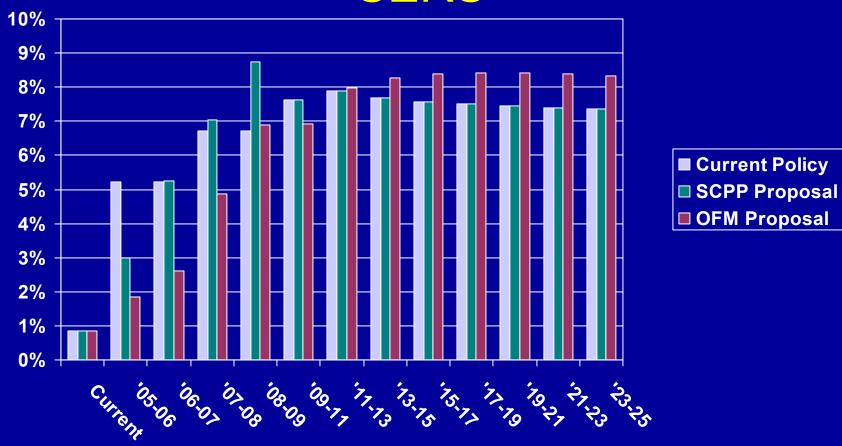
All exclude gain-sharing. SCPP proposal excludes gain-sharing trade-off benefits. OFM proposal based on OSA data, methods and assumptions.

Projected Employer Rates TRS



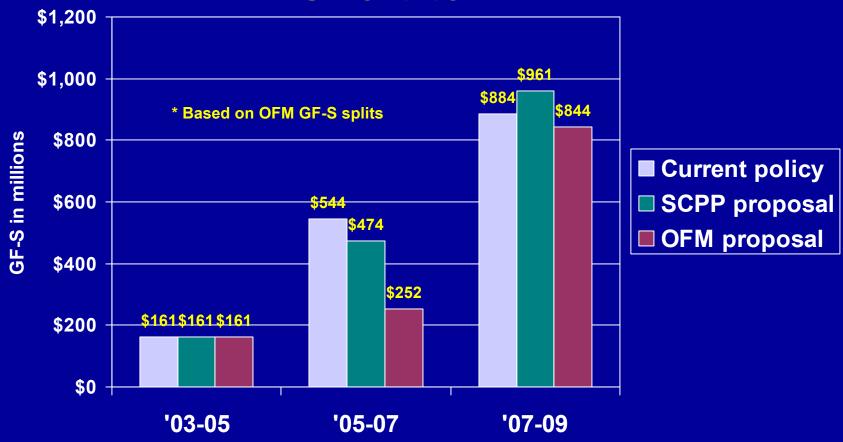
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Projected Employer Rates SERS



All exclude gain-sharing. SCPP proposal excludes gain-sharing trade-off benefits. OFM proposal based on OSA data, methods and assumptions.

Projected Pension Costs Short-term*



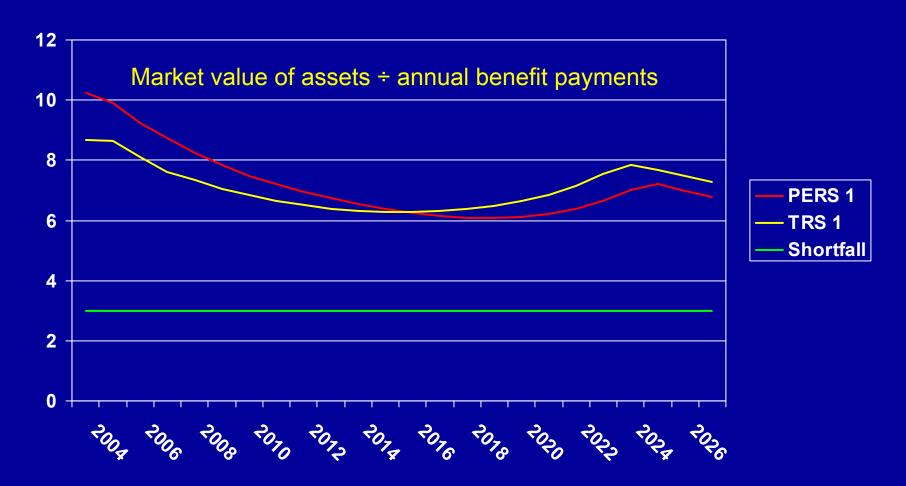
All exclude gain-sharing. SCPP proposal excludes gain-sharing trade-off benefits. OFM proposal based on OSA data, methods and assumptions. Includes LEOFF, WSP and PSERS (effective 7/1/2006).

Projected Pension Costs % of GF-S operating budget

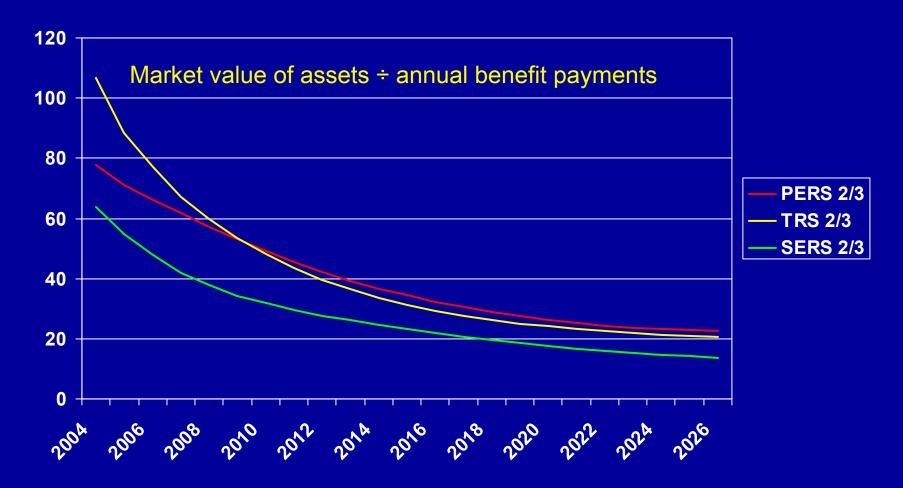


Projected GF-S operating budget numbers provided by Senate Ways & Means staff

Projected Plan 1 Liquidity Current policy



Projected Plan 2/3 Liquidity Current policy



Gain-sharing

- Represents a material liability to the affected retirement systems
 - All investment gains are necessary to support the long-term investment return assumption
- Actuarial standards of practice require the recognition of all material liabilities
- Recognition leads to increased contribution rates

Gain-sharing Options

- Retain benefit and fund (\$147m GF-S increase; not included in earlier graphs)
- Repeal benefit (\$147m GF-S savings)
- Repeal and replace with a certain benefit of lesser value (\$86m GF-S savings SCPP proposal)
- Defer funding until after each gain-sharing distribution (\$147m GF-S savings; but additional long-term cost)
- Alter gain-sharing formula (next slide)

All increases shown above apply to the 2005-07 biennium

Gain-sharing Options (cont'd)

2005-07 GF-S Impact	Look-back Period	Gain-sharing Threshold
(if funded)		
\$147m cost	4 fiscal years	10%
\$91m cost	8 fiscal years	10%
\$49m cost	8 fiscal years	12%